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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

June 29, 1994

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: CC Docket No. 94-1; Price Cap Performance Review
for Local Exchange Carriers

Dear Mr. Caton:

Enclosed for filing are the original and four (4) copies of Pacific Telecom, Inc.'s reply comments in the above-referenced proceeding.

Please acknowledge receipt on the copy of the Pacific Telecom, Inc. reply comments enclosed for such purpose.

Sincerely yours,

Brian D. Thomas by PJA

Brian D. Thomas
Assistant Vice President
Pacific Telecom, Inc.
805 Broadway
Vancouver, Washington 98668

Enclosures

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On May 9, 1994, MCI Telecommunications Corporation (MCI) filed comments in the above referenced proceeding. Among other things, MCI urges the Federal Communications Commission ("Commission") to revise the current waiver procedure which allows rate of return carriers acquiring exchanges subject to price cap regulation to retain their rate of return status.

MCI's comments reflect only its self-interested concern that it pay no more money in access charges. MCI fails to address the potentially detrimental effects its proposal may have on universal service and infrastructure investment policy goals or the beneficial effects of these types of acquisitions for rural customers. PTI recommends that the Commission recognize these broad public policy concerns when considering the price cap waiver rules.

II. DISCUSSION

Under existing Commission rules, non-price cap companies become subject to price cap regulation when they acquire a price cap company, or any part thereof. 47 C.F.R. § 61.41(c)(2) (1993). The Commission adopted this rule (also referred to as the "all-or-nothing rule") as part of its price cap regulations to remove the incentive of a telephone company to engage in improper cost shifting or "gaming."¹ However, the Commission recognized the administrative burdens imposed on small and mid-size telephone companies by the mandatory price cap regulations. It noted that those companies without an incentive to engage in improper behavior should not be forced into a regulatory regime based on the historical performances of large telephone companies.² To this end, the Commission adopted the existing waiver procedure, which allows rate of return companies acquiring exchanges subject to price cap regulation to retain their rate of return status.

¹ See Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd 6786, 6819 (1990) (Price Cap Order); LEC Price Cap Reconsideration Order, 6 FCC Rcd 2637, 2706 (1991).

² See LEC Price Cap Order, 5 FCC Rcd at 6818.

MCI ignores the multiple public interest issues reflected in the Commission's analysis, preferring instead to focus on the single issue of potential access charge increases. Reduced access charges are a worthy goal -- if they lead to consumer benefits. Decreases in access charges can result in decreases in interexchange rates to consumers, but may also result in increased earnings for MCI shareholders. MCI has made no representation or commitment to the Commission that its rates will decline if access charges decline. MCI's contemporary rate history makes this result unlikely.

MCI's approach may hinder the development of competition. A large price cap LEC serving both urban and rural exchanges cannot subdivide its study areas into rural and urban categories. It may therefore find itself averaging access rates across its serving areas. Revenues from urban exchanges may support higher cost service to rural exchanges through the rate averaging process. Where the price cap LEC sells a rural exchange to a rural carrier, the buying carrier may have access to the Universal Service Fund (USF). Such USF funding would provide external support for the costs and service previously provided internally by the selling LEC. The selling LEC, having eliminated the need for such internal subsidies, would be in a position to lower its costs for other services.

To the extent such cost reductions are applied to access charges, MCI would be a direct beneficiary of such transfers. To the extent cost reductions are applied to services competitive with those of MCI, MCI may not be better off, but the consuming public is. Either way, the broader public interest is served by such transactions.

Such transactions address the public interest in other ways as well. The current waiver procedure serves the public interest because it facilitates the sale and transfer of rural exchanges which are very much in need of basic upgrades. These transactions allow rural exchanges, such as PTI, which possess substantial experience in operating rural exchanges, to extend state of the art technology in rural areas and to offer innovative benefits to customers located within the purchased territory. PTI's record exemplifies this point. In purchased rural exchanges, it has provided customers with: (1) upgrades to single party service more quickly; (2) improved quality of service; and (3) greater customer responsiveness.³ PTI remains committed to upgrading all its purchased exchanges to provide customers basic, reliable telephone service as well as the benefits of modern technology.⁴

In recommending additional requirements for waiver requests, MCI fails to recognize these important public benefits. The Commission should take a broader public policy view and reject MCI's proposals.

³ The Colorado Public Utilities Commission has emphasized the importance of these improvements to customers in the purchased rural exchanges. When it approved PTI's application to transfer certain rural exchanges from U.S. West to PTI, the Colorado Commission found that the transfer served the public interest because, among other things, PTI was capable of offering improved infrastructure and quality of service to ratepayers in the purchased exchanges. See In the Matter of the Joint Application of US WEST Communications, Inc. and Eagle Telecommunications, Inc./Colorado, d/b/a PTI Communications, Inc., for Authority to Transfer Certain Telephone Exchanges, Operations and Business of US WEST Communications, Ind. to Eagle Telecommunications, Inc./Colorado, d/b/a PTI Communications, Inc., a wholly owned Subsidiary of Pacific Telecom Inc., Docket No. 93A-440T, p. 26 (Feb. 17, 1994) ("The Commission firmly believes that PTI will better serve these [purchased] exchanges . . . than . . . U.S. West or the yet unformed Yuma/Washington Electric Subsidiary.")

⁴ PTI uses advanced satellite and digital undersea fiber optic cable technology to meet its customers' requirements for voice, data and other applications.

Respectfully submitted,

By: Brian D. Thomas by RSJ

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DATED: June 29, 1994

CERTIFICATE OF SERVICE

I, Patricia I. Folan, do hereby certify that copies of the foregoing PTI's Reply Comments were hand delivered to the following on this 29th day of June 1994:

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